

Eaton Academy

**Financial Report
with Supplementary Information
June 30, 2008**

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Independent Auditor's Report

To the Board of Directors
Eaton Academy
Detroit, Michigan

We have audited the accompanying financial statements of the governmental activities and major fund of Eaton Academy (the "Academy") as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Academy as of June 30, 2008 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedule, as identified in the table of contents, are not required parts of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the Board of Directors
Eaton Academy
Detroit, Michigan

In accordance with *Government Auditing Standards*, we have also issued a report dated October 16, 2008 on our consideration of the Academy's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, grants, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

October 16, 2008

This section of the 2007-2008 annual financial report presents our discussion and analysis of Eaton Academy's (the "Academy") financial performance during the year ended June 30, 2008. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Eaton Academy financially as a whole. The Academy-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy-wide financial statements by providing information about the Academy's main operating fund - the General Fund.

Management's Discussion and Analysis (MD&A)
(Required Supplementary Information)

Basic Financial Statements

Academy-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplementary Information)
Budgetary Information for Major Fund

Reporting the Academy as a Whole - Academy-wide Financial Statements

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Eaton Academy

Management's Discussion and Analysis (Continued)

These two statements report the Academy's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

The statement of net assets and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, operations and maintenance, and community services. Unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

Reporting the Academy's Most Significant Funds - Fund Financial Statements

The Academy's fund financial statements provide detailed information about the most significant fund - not the Academy as a whole. Some funds are required to be established by state law and by bond covenants. The governmental funds of the Academy use the following accounting approach:

Governmental Funds - All of the Academy's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

Eaton Academy

Management's Discussion and Analysis (Continued)

The Academy as a Whole

Recall that the statement of net assets provides the perspective of the Academy as a whole. Table I provides a summary of the Academy's net assets as of June 30, 2008 and 2007.

TABLE I

	Governmental Activities	
	2008	2007
	(in thousands)	
Assets		
Current and other assets	1,759.9	\$ 1,366.2
Capital assets - Net	<u>377.2</u>	<u>460.3</u>
Total assets	2,137.1	1,826.5
Liabilities - Current liabilities	<u>105.4</u>	<u>268.4</u>
Net Assets		
Investment in capital assets	377.2	460.3
Unrestricted	<u>1,654.5</u>	<u>1,097.8</u>
Total net assets	<u>\$ 2,031.7</u>	<u>\$ 1,558.1</u>

The above analysis focuses on the net assets (see Table I). The change in net assets of the Academy's governmental activities is discussed below (see Table 2). The Academy's net assets were approximately \$2,031,700 at June 30, 2008. Capital assets totaling approximately \$377,200 are comprised of the original cost, less depreciation, of the Academy's capital assets. The remaining amount of net assets was unrestricted.

The unrestricted net assets of approximately \$1,654,500 in governmental activities represent the accumulated results of all past years' operations. The unrestricted net assets balance enables the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties.

The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Academy as a whole are reported in the statement of activities, which shows the changes in net assets for the fiscal years ended June 30, 2008 and 2007 (see Table 2).

Eaton Academy

Management's Discussion and Analysis (Continued)

TABLE 2

	Governmental Activities	
	2008	2007
	(in thousands)	
Revenue		
Program revenue - Operating grants	\$ 434.5	\$ 202.2
General revenue:		
Other	11.0	31.4
State foundation allowance	<u>3,541.2</u>	<u>3,401.3</u>
Total revenue	3,986.7	3,634.9
Functions/Program Expenses		
Instruction	1,844.9	1,629.6
Support services	1,550.3	1,507.5
Depreciation (unallocated)	<u>117.9</u>	<u>63.2</u>
Total functions/program expenses	<u>3,513.1</u>	<u>3,200.3</u>
Increase in Net Assets	<u>\$ 473.6</u>	<u>\$ 434.6</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was approximately \$3,513,100. Certain activities were partially funded from those who benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions of approximately \$434,500. The remaining "public benefit" portion of our governmental activities was paid with approximately \$3,552,200 from the state foundation allowance and other local revenues.

The Academy experienced an increase in net assets of approximately \$473,600. Key reasons for the change in net assets were due to General Fund operating surplus created by increased revenue from enrollment from the 2007-2008 year and control of operating expenditures.

As discussed above, the net cost shows the financial burden that was placed on the State by each of these functions. Since unrestricted state aid constitutes the vast majority of Academy operating revenue sources, the board of directors and administration must annually evaluate the needs of the Academy and balance those needs with state-prescribed available unrestricted resources.

Eaton Academy

Management's Discussion and Analysis (Continued)

The Academy's Funds

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources the State and others provide to it and may provide more insight into the Academy's overall financial health.

As the Academy completed this year, the General Fund reported a fund balance of approximately \$1,654,500, which is an increase of \$556,700 from last year. The primary reasons for the increase are due to conservative spending in the General Fund fund balance as well as increased revenue due to the continued expansion of the elementary program.

General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information of these financial statements.

The significant revisions made to the 2007-2008 General Fund original budget occurred in the areas of added instructional needs and operations maintenance. The increase in added instructional needs was attributable to the increased enrollment in the elementary program. The decrease in operations and maintenance was due to the delay of building renovations by one year.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2008, the Academy had \$377,196 invested in capital assets, mostly in furniture and equipment and leasehold improvements.

We present more detailed information about our capital assets in the notes to the financial statements.

Eaton Academy

Management's Discussion and Analysis (Continued)

Debt

At the end of this year, the Academy had no long-term debt. This is consistent with all prior years. The Academy continues to control expenses so that no debt is incurred or carried forward into the next fiscal year.

Economic Factors and Next Year's Budgets and Rates

Our appointed officials and administration consider many factors when setting the Academy's 2008-2009 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2008 fiscal year is 25 percent and 75 percent of the February 2008 and September 2008 student counts, respectively. The 2008-2009 budget was adopted in June 2008 based on an estimate of students that will be enrolled in September 2008. Approximately 90 percent of total General Fund revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2008-2009 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2008-2009 budget. Once the final student count and related per pupil funding is validated, state law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

Since the Academy's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to academies. The State periodically holds a revenue-estimating conference to estimate revenues. It is possible that state funds may be insufficient to fully fund the appropriation.

**Statement of Net Assets
June 30, 2008**

	<u>Governmental Activities</u>
Assets	
Cash (Note 3)	\$ 1,062,815
Due from other governmental units	681,824
Prepaid costs	15,304
Capital assets - Net (Note 4)	<u>377,196</u>
Total assets	2,137,139
Liabilities - Accounts payable and other accrued liabilities	<u>105,399</u>
Net Assets	
Investment in capital assets	377,196
Unrestricted	<u>1,654,544</u>
Total net assets	<u><u>\$ 2,031,740</u></u>

Eaton Academy

Statement of Activities Year Ended June 30, 2008

			Governmental Activities
	Expenses	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Assets
Functions/Programs			
Primary government - Governmental activities:			
Instruction	\$ 1,844,935	\$ 434,521	\$ (1,410,414)
Support services	1,550,320	-	(1,550,320)
Depreciation (unallocated)	117,871	-	(117,871)
Total governmental activities	<u>\$ 3,513,126</u>	<u>\$ 434,521</u>	(3,078,605)
General revenues:			
State aid not restricted to specific puposes			3,541,235
Other local revenues			10,996
Total general revenues			<u>3,552,231</u>
Change in Net Assets			473,626
Net Assets - Beginning of year			<u>1,558,114</u>
Net Assets - End of year			<u>\$ 2,031,740</u>

Eaton Academy

Governmental Fund Balance Sheet June 30, 2008

	<u>General Fund</u>
Assets	
Cash (Note 3)	\$ 1,062,815
Due from other governmental units	681,824
Prepaid costs	<u>15,304</u>
Total assets	<u>\$ 1,759,943</u>
Liabilities and Fund Balance	
Liabilities - Accounts payable and other accrued liabilities	\$ 105,399
Fund Balance	
Reserved - Prepaid costs	15,304
Unreserved - Undesignated - Reported in General Fund	<u>1,639,240</u>
Total fund balance	<u>1,654,544</u>
Total liabilities and fund balance	<u>\$ 1,759,943</u>

Eaton Academy

Governmental Fund Reconciliation of the Balance Sheet of Governmental Fund to the Statement of Net Assets June 30, 2008

Fund Balance - Governmental Fund \$ 1,654,544

Amounts reported for governmental activities in the statement of net assets are different because capital assets used in governmental activities are not financial resources and are not reported in the governmental funds:

Cost of capital assets	\$ 714,336	
Accumulated depreciation	<u>(337,140)</u>	<u>377,196</u>

Net Assets - Governmental Activities \$ 2,031,740

Eaton Academy

Governmental Fund **Statement of Revenue, Expenditures, and Changes in Fund Balance** **Year Ended June 30, 2008**

	<u>General Fund</u>
Revenue	
Local sources	\$ 10,996
State sources	3,734,337
Federal sources	<u>241,419</u>
Total revenue	3,986,752
Expenditures	
Current:	
Instruction	1,844,935
Support services	1,550,320
Capital outlay	<u>34,772</u>
Total expenditures	<u>3,430,027</u>
Net Change in Fund Balance	556,725
Fund Balance - Beginning of year	<u>1,097,819</u>
Fund Balance - End of year	<u><u>\$ 1,654,544</u></u>

Eaton Academy

Governmental Fund Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds	\$ 556,725
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Amounts reported for governmental activities in the statement of activities are different because governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (117,871)	
Capitalized capital outlay	<u>34,772</u>	<u>(83,099)</u>

Change in Net Assets of Governmental Activities	<u>\$ 473,626</u>
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Note 1 - Summary of Significant Accounting Policies

The accounting policies of Eaton Academy (the "Academy") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

Reporting Entity

The Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

On August 20, 1996, the Academy entered into a contract with Central Michigan University to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the state constitution. The Central Michigan University Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy renewed its contract with Central Michigan University for three years on July 1, 2006, expiring on June 30, 2009. The Academy pays the Central Michigan University Board of Trustees 3.0 percent of state aid as administrative fees. The total administrative fees for the year ended June 30, 2008 payable to the Central Michigan University Board of Trustees were approximately \$124,000.

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the Academy. Based on application of the criteria, the Academy does not contain component units.

Academy-wide and Fund Financial Statements

The Academy-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy-wide activities are considered governmental activities.

Note I - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. The General Fund is the Academy's only major fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Academy-wide Financial Statements - The Academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the Academy-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Note I - Summary of Significant Accounting Policies (Continued)

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Academy.

The Academy reports the following major governmental fund:

General Fund - The General Fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Prepaid Costs - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both Academy-wide and fund financial statements.

Capital Assets - Capital assets, which include furniture and equipment, are reported in the applicable governmental column in the Academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

Capital assets are depreciated using the straight-line method over the following useful lives:

Leasehold improvements	5 years
Furniture and equipment	5-10 years

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data - Comparative data is not included in the Academy's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General Fund. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits academies to amend their budgets during the year. The Academy increased/decreased budgeted amounts during the year in a legally permissive manner.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Academy did not have significant expenditure budget variances.

Note 3 - Deposits

State statutes (and the Academy's investment policy) authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority.

The Academy has designated one bank for the deposit of its funds.

Note 3 - Deposits (Continued)

The Academy's cash is subject to custodial credit risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy evaluates its depositories and only those with an acceptable risk level are used for the Academy's deposits for custodial credit risk. At year end, the Academy's deposit balance of \$1,363,314 had \$1,263,314 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

At year end, the Academy's deposits were reported in the basic financial statements as cash of \$1,062,815.

Note 4 - Capital Assets

Capital asset activity of the Academy's governmental activities was as follows:

	Balance July 1, 2007	Additions	Balance June 30, 2008
Capital assets being depreciated:			
Leasehold improvements	\$ 481,573	\$ 32,714	\$ 514,287
Furniture and equipment	<u>197,991</u>	<u>2,058</u>	<u>200,049</u>
Total capital assets being depreciated	679,564	34,772	714,336
Accumulated depreciation:			
Leasehold improvements	61,293	113,249	174,542
Furniture and equipment	<u>157,976</u>	<u>4,622</u>	<u>162,598</u>
Total accumulated depreciation	<u>219,269</u>	<u>117,871</u>	<u>337,140</u>
Net governmental capital assets	<u>\$ 460,295</u>	<u>\$ (83,099)</u>	<u>\$ 377,196</u>

Depreciation expense was not charged to activities of the Academy as the Academy considers its assets to impact multiple activities and allocation is not practical.

Note 5 - Lease Commitments

The Academy leases its facilities under an operating lease expiring in June 2011. The Academy's annual lease rate is 10 percent of the per pupil enrollment/state aid grant amount. The Academy is responsible for repairs and maintenance of the facility. The amount expensed under this lease agreement totaled approximately \$328,000 for the year ended June 30, 2008.

Note 6 - Management Agreement

The Academy has entered into a management agreement effective through June 30, 2009 with Schoolhouse Services and Staffing, Inc., a for-profit corporation. The management company is responsible for all management, operation, administration, and education of the Academy. Susan Diehl, CAO of Schoolhouse Services and Staffing, Inc., is also the resident agent for the Academy. All Academy personnel are provided by the management company. The total management fee expensed by Eaton Academy for the year ended June 30, 2008 approximated \$300,000.

Note 7 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The risk of employee injuries and medical benefits for employees of the management company are covered by the insurance held by the management company. The Academy has purchased commercial insurance for all other claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inception.

Required Supplementary Information

Eaton Academy

Required Supplementary Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 3,000	\$ 15,231	\$ 10,996	\$ (4,235)
State sources	3,745,000	3,694,001	3,734,337	40,336
Federal sources	141,500	242,998	241,419	(1,579)
Total revenue	3,889,500	3,952,230	3,986,752	34,522
Expenditures - Current				
Instruction:				
Basic programs	1,570,000	1,581,900	1,462,204	(119,696)
Added needs	391,900	418,900	382,731	(36,169)
Support services:				
Pupil	59,000	85,000	85,367	367
Instructional staff	192,000	206,500	189,759	(16,741)
General administration	420,700	426,700	424,498	(2,202)
School administration	176,000	149,500	136,688	(12,812)
Business services	83,300	59,950	53,786	(6,164)
Operations and maintenance	979,000	772,000	703,867	(68,133)
Central and other	5,000	5,000	5,819	819
Total expenditures	3,876,900	3,705,450	3,430,027	(275,423)
Net Change in Fund Balance	12,600	246,780	556,725	309,945
Fund Balance - July 1, 2007	1,097,819	1,097,819	1,097,819	286,675
Fund Balance - June 30, 2008	<u>\$ 1,110,419</u>	<u>\$ 1,344,599</u>	<u>\$ 1,654,544</u>	<u>\$ 309,945</u>

**Report Letter on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the Board of Directors
Eaton Academy

We have audited the financial statements of the governmental activities and major fund of Eaton Academy (the "Academy") as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated October 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Eaton Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Eaton Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

To the Board of Directors
Eaton Academy

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the following control deficiency to be a significant deficiency in internal control over financial reporting:

- The Academy-wide financial statements require the use of full accrual accounting rather than the modified accrual accounting used in the fund financial statements. The use of full accrual accounting includes the capitalization and depreciation of capital assets. The Academy's records are kept under modified accrual accounting and the adjustments necessary to convert to full accrual accounting for capital assets are not maintained by management.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

We noted other matters that have been communicated to the board of directors in a separate letter dated October 16, 2008.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Eaton Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 16, 2008

Eaton Academy

Report to the Board of Directors
June 30, 2008



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To the Board of Directors
Eaton Academy

We have recently completed our audit of the basic financial statements of Eaton Academy (the "Academy") for the year ended June 30, 2008. In addition to our audit report, we are providing the following required audit communication, informational items, and other recommendations to the Academy.

We are grateful for the opportunity to be of service to Eaton Academy. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

October 16, 2008

Results of the Audit

October 16, 2008

To the Board of Directors
Eaton Academy

We have audited the financial statements of Eaton Academy for the year ended June 30, 2008 and have issued our report thereon dated October 16, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 13, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Academy. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the Academy's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the Academy's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated October 16, 2008 regarding our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

We also are obligated to communicate certain matters related to our audit to those responsible for the governance of the Academy, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our discussion about planning matters on September 29, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Academy are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008.

We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant sensitive estimates.

The disclosures in the financial statements are neutral, consistent, and clear. There were no particularly sensitive financial statement disclosures.

The disclosures were drafted based on signed and executed agreements between the State, the management company, the real estate company, and the Academy.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated October 16, 2008.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the Academy, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Academy, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the Academy's auditors.

To the Board of Directors
Eaton Academy

October 16, 2008

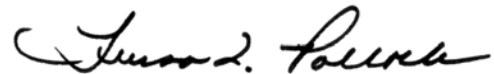
Other Information in Documents Containing Audited Financial Statements

In addition to the comments and recommendations in this letter, our observations and comments regarding the Academy's internal controls, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. We recommend that the matters we have noted there receive your careful consideration.

This information is intended solely for the use of the board of directors and management of Eaton Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "Teresa L. Pollock", written in a cursive style.

Teresa L. Pollock, CPA

Informational Items and Other Recommendations

Internal Control Observations and Suggestions

During our audit process, we attempt to identify opportunities for the Academy to revise or update its system of internal control. The primary goal of internal control is to provide reasonable (as opposed to absolute) protection to the Academy and its assets and financial information. We appreciate that the Academy has limited resources and must look to maximize the benefits from the resources it utilizes. With that in mind, we offer the following for the Academy's consideration as it continues to improve its operations.

Management Fees

The Academy's management agreement states that the management fee is based on 85 percent of funds received by the Academy. During the current fiscal year, the monthly amounts paid by the Academy in management fees did not follow this calculation. Additionally, at the end of the year, additional amounts were owed to the management company based on the agreement. Although the management company has indicated that it does not intend to collect the additional management fees, the Academy should consider revising its management agreement to properly reflect the way the management fee is ultimately paid.

Journal Entry Procedures

During our review of the Academy's journal entries, it was noted the journal entries are not numbered. We encourage the Academy to establish a numbering system for the entries. Additionally, we encourage the Academy to correlate journal entry numbers with supporting documentation retained to ensure that entries have adequate support and a specific trail to support transactions.

STATE AID ISSUES

2008/2009

For 2008/2009, the governor and legislature continued to work through the State's budget issues. Once again schools were asked to establish budgets without knowing the level of funding to be provided by the State. In July 2008, a compromise was reached.

Foundation Allowance

The budget agreement provides for a \$105 increase (1.4 percent increase) in the Academy's foundation allowance. As part of the agreement, the State continued with a sliding scale equity payment concept within the foundation formula. The base foundation increase is \$56 per pupil. The equity payment is received by districts and academies with a foundation allowance below \$8,489.

21st Century Schools

The amendments to the State Aid Act also provide resources with a focus on increasing graduation rates. Grants of up to \$3.0 million would be made available to districts and public academies with less than a 70 percent graduation rate, as long as the district or public academy matched the grant funds. The academy would have to graduate at least 80 percent of its students by the third year, and 80 percent of those students would have to go on to postsecondary education, or the academy would have to return 50 percent of the grant.

As the State's budget year moves forward, it will monitor the revenue intake with periodic revenue-estimating conferences. State law requires that the appropriations cannot exceed revenue estimates. As a result, it is possible there could be reductions to district funding if the State is not able to generate the funding levels identified in the May 2008 revenue-estimating conference.

ELECTRONIC SUBMISSION

Effective June 30, 2009, the Michigan Department of Education has mandated electronic filing for all audited financial statements. As of the date of this letter, the Michigan Department of Education has not finalized protocol related to electronic submissions. We will keep the Academy and management staff apprised with any guidance released from the Michigan Department of Education.